Understanding super terminology

Transfer Balance Cap and Total Superannuation Balance explained

An individual's Transfer Balance Cap (TBC) and Total Superannuation Balance (TSB) are calculated differently and are separate concepts. When the super reforms of 2017 came into effect, the general TBC was set at $1.6 million and the TSB limit for making non-concessional contributions was set at the TBC of $1.6 million. On this basis the concepts are quite often confused. In general terms, paying a retirement phase pension is subject to our TBC and eligibility for various contribution rules is subject to our TSB. In this fact sheet we will explain the two concepts and where they matter for SMSFs.

What is the Transfer Balance Cap?

The General Transfer Balance Cap (GTBC) was introduced from 1 July 2017 and is a cap on the how much can be transferred to a retirement phase pension for a member. The cap ultimately restricts the entitlement a fund has to receive a tax exemption on retirement phase earnings. The GTBC was introduced from 1 July 2017 and was set at $1.6 million. It was indexed to $1.7 million on 1 July 2021 and then further indexed to $1.9 million on 1 July 2023.

Each individual will have their own personal transfer balance cap (PTBC) which will initially align with the GTBC in the year they commence a retirement phase pension. Based on how much an individual commences a pension for will determine if their PTBC is indexed when the GTBC is indexed. The reason they can differ is an individual's PTBC will depend on when they first started their retirement phase income stream.

When a retirement phase pension is commenced for an amount less than the PTBC this will result in an individual having first year cap space which will actually be represented as a percentage of unused cap space. This unused cap percentage will then be the factor that is used to determine how an individual's PTBC is indexed when the GTBC is incrementally indexed. For further information about indexation, please refer to SuperGuardian's fact sheet: *"Indexing the Personal Transfer Balance Cap "*.

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How do we calculate it?

The PTBC is determined by what transactions have taken place in your transfer balance account (TBA). Your TBA commences on the day you first commence a retirement phase income stream after 1 July 2017 or on 1 July 2017 if you were already in receipt of a retirement phase income stream as at 30 June 2017. The TBA records all events that count towards the PTBC and is run like a ledger with debit and credit events which are transfers into and out of retirement phase.

The following are entries that are reported on a TBA:

Debit (decrease balance)	Credit (increase balance)
Stopping a pension - full or partial commutation	Starting a pension - including moving a TRIS to retirement phase
Failure to comply with pension standards or commutation authority	Receiving a reversionary pension - to be reported in the quarter or year the death occurs but the credit does not appear in the recipients TBA until 12 months from the date of death
Payment splits upon divorce/marital breakdown	Excess transfer balance earnings that accrue
Structured settlement contributions	Some LRBA payments - if the LRBA was started after 1 July 2017
Other events such as fraud, dishonesty or bankruptcy	

All retirement phase interests are recorded within the TBA until the death of the member. The account incorporates all retirement phase income streams including capped defined benefit income streams.

The proportionally indexed transfer balance cap is calculated by the following process in section 294-40 of the Income Tax Assessment Act 1997:

- Determining the highest ever balance in the TBA
- Using the highest ever balance to calculate the proportion of the cap used, as a percentage, (rounded down to the nearest whole number) and then subtracting from 1 to determine the ‘unused cap percentage’ of the TBA
- Multiplying the unused cap percentage by the indexation increase of $100,000.
- The dollar figure is than added to the original PTBC to represent the new PTBC.

This is best demonstrated by the following example.

> Michelle commenced a pension on 1 September 2017 for $1.3 million.
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> This balance represented 81.25% of her personal transfer balance cap of $1.6m. Michelle therefore has an unused cap percentage of 19%.
>
> On 1 July 2021, the GTBC was indexed by $100,000 to $1.7 million. At that time, Michelle hadn't used her remaining $300,000, so her PTBC will be proportionately indexed.
>
> The GTBC indexation of $100,000 is then multiplied by Michelle's remaining percentage (19%) resulting in Michelle getting an uplift in her PTBC of $19,000. The end result is Michelle's new PTBC is $1,619,000 As she has already used $1.3 million it means she has $319,000 available in her PTBC.
>
> On 1 July 2023, the GTBC was indexed by $200,000 to $1.9 million. If, at that time, Michelle hadn't used her remaining $319,000, her PTBC will again be proportionately indexed.
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> The GTBC indexation of $200,000 is then multiplied by Michelle's remaining percentage (19%) resulting in Michelle getting an uplift in her PTBC of an additional $38,000. The end result is Michelle's new PTBC is $1,657,000. As she has already used $1.3 million it means she has $357,000 available in her PTBC.

What measures are impacted?

The GTBC has significant impact on the following as the rules are all tied to the value of the GTBC:

- Making non-concessional contributions and the ability to use the bring forward provisions
- Eligibility for the Government co-contribution
- Eligibility for the tax offset for spouse contributions
- The defined benefit income cap (indexed to $118,750 from 1 July 2023 = GTBC/16)

Knowing an individual’s personal TBC is most important for making decisions about retirement phase pensions and whether any more accumulation funds can be moved into the tax-free retirement phase. Whilst the above measures are linked to the GTBC, the contribution rules are further subject to an individual's TSB.

What is the Total Superannuation Balance (TSB)?

Total Superannuation Balance (TSB) is another concept that was introduced in 2017. The government reduced the annual contribution caps and further limited the concessions available to individuals with large superannuation balances. The TSB is a way to value an individual's total super interest at a particular date and is now used to work out eligibility for a number of measures discussed below.

An individual's TSB is calculated at the 30th June of each financial year, starting from 30 June 2017. TSB is not just based on what is in an individual's SMSF administered by SuperGuardian, so it's important that the balances of any other external super accounts are made available to ensure we can work out eligibility for the particular measures, where relevant. TSB can be found on an individual's MyGov Account.

How do we calculate it?

In very simple terms the TSB represents all the amounts we have across all accumulation interests, and it also includes the current day value of our existing account-based pension accounts. Of course, nothing is ever that simple and the TSB when referencing pensions actually is calculated as our transfer balance account less any credits attributable to commencing a pension plus certain debits. The sum of the transfer balance account calculation is then added to the value of the account-based income stream. In addition to our accumulation and pension interests the TSB also incorporates roll-overs that are in transit.

How can we check a member's total superannuation balance with multiple superannuation accounts?

A member can easily check their ATO online services account (MyGov) to view their TSB. This is especially important if the member has multiple superannuation accounts. Please note that the latest information may not be available in ATO online services due to the reporting time frames of funds, you can check with your SuperGuardian client manager to get the most up to date information on your SMSF.

Accumulation phase value of super interests

This is generally the withdrawal value of an accumulation balance. It can also include transition to retirement pensions not in retirement phase and super income streams that do not comply with the pension standards or a commutation authority.

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Retirement phase value

If you only have account-based pensions, the retirement phase value is generally the current value of the pension accounts, plus any excess transfer balance earnings. All other income streams are generally based on the transfer balance account value at 30 June.

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Any rollovers in transit (not already reflected in either balance above)

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Personal injury or structured settlement contributions paid into your super funds

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Total Super Balance

What measures are impacted?

The TSB is only a relevant number on 30 June each year as it dictates the following for an individual:

1. Making non-concessional contributions (and the availability of the two or three year bring forward period)

If the TSB of a member exceeds $1.9m at 30 June 2024 then they cannot make non-concessional contributions in the 2024/25 financial year. The following table shows how the value of the TSB affects the non-concessional contributions cap and also whether the two or three year bring forward period can apply from 1 July 2024:

Total Superannuation Balance	Bring forward contribution
< $1.66 m	$360,000 (3 years)
$1.66 m to < $1.78 m	$240,000 (2 years)
$1.78 m to < $1.9 m	$120,000
> $1.9 m or more	Nil

For more information, please refer to SuperGuardian's fact sheet: *"Bring Forward Contributions"*.

2. Concessional contributions cap where the unused cap can be carried forward

Members with a TSB of less than $500,000 have the ability to access an increased concessional contribution cap where they haven't fully utilised the concessional cap for one or more of the previous five financial years. The unused cap effectively carries forward and anything not used after five years will expire. For example, a 2019/20 unused cap that is not used by the end of the 2024/25 financial year will expire. For more information please refer to SuperGuardian's fact sheet on:

"Unused Concessional Contributions Cap Carry Forward".

3. Government Co-Contribution

Members will not be eligible for the government co-contribution if their TSB at the start of the financial year is equal to or greater than the general transfer balance cap. From 1 July 2023, the general transfer balance cap is $1.9 million.

4. Tax offset for spouse contributions

Members will not be eligible for the tax offset for spouse contributions if their spouse's TSB at the start of the financial year is equal to or greater than the general transfer balance cap and their spouse has exceeded their non-concessional contributions cap in that financial year. From 1 July 2023 the general transfer balance cap is $1.9 million. For more information, please refer to SuperGuardian's fact sheet: *"Spouse Contribution Tax Offset".*

5. Claiming exempt current pension income under the segregated assets method

Fund's paying retirement phase pensions have the benefit of claiming exempt current pension income (ECPI) in the SMSF annual return. There are two methods available to calculate ECPI: the segregated method and the proportionate method.

An SMSF is not able to use the segregated assets method for claiming exempt current pension income (ECPI) in a financial year if the following conditions are met:

- The fund has at least one member with a retirement phase interest at any time during the financial year.
- A member of the fund has a TSB of more than $1.6 million at the end of the previous financial year, AND
- that member is a retirement phase recipient of the super income stream from either the fund or another super provider.

They must then use the proportionate method for the full year and obtain an actuary certificate.

Conclusion

As you can see the TBC and TSB are important concepts to understand when paying pensions or contributing to superannuation. Of course, for those individuals with less than $1.9 million in superannuation, all of these issues are of less significance as there is less need to monitor caps however, for those approaching $500,000 the total superannuation balance will be of interest when considering concessional contributions.

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